

BALTIMORE COUNTY

ECONOMIC INDICATORS AND REVENUE REPORT

1999 Fourth Quarter
October 1 to December 31, 1999



Office of the County Auditor
March 1, 2000

**BALTIMORE COUNTY
ECONOMIC INDICATORS REPORT**

1999 FOURTH QUARTER

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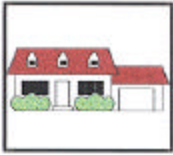
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SUMMARY OF ECONOMIC INDICATORS

Baltimore County economic indicators for the fourth quarter of 1999 continue to show a solid performance with considerable year-over-year employment growth, a low unemployment rate, and a strong housing market. ***The strength of the County's economy in the fourth quarter, coupled with a continued favorable, albeit slower, growth outlook for the U.S. and Maryland economies suggest continued growth and a positive outlook for the County.***



Employment among County residents rose a sharp 6,500 persons, or by 1.7%, from 1998:Q4 to 1999:Q4, while the County **labor force** increased by 3,622, or by 0.9%. The number of **unemployed** and the **unemployment rate** showed a large drop in the County over the 1998:Q4 to 1999:Q4 period (pages 2-3).



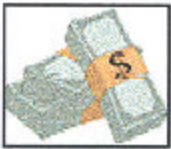
Settlements on existing homes as well as **pending sales** fell by 0.8% and 4.6%, respectively, over the 1998:Q4 to 1999:Q4 period. Over the first nine months of 1999, **residential** building permit activity, both in value and number of units, was up over 1998, however, **non-residential** building permit activity was down, but nevertheless remained strong (pages 4-7).



Mortgage rates and other interest rates continued to move upward in the fourth quarter and accelerated even more in early 2000 (pages 8-10). Higher mortgage rates are likely slow both the new and existing residential markets in the coming months.



Regional and **U.S. inflation** rates were up by 2.5% and 2.6%, respectively (November-to-November) (page 11). **U.S. economic growth** expanded at an annual rate of 6.9% in the fourth quarter of 1999, and by 4% or more for the third consecutive year, 1997 to 1999 (pages 11-13).



Consumer Confidence set another record in January and consumers remained poised to continue to support the current economic expansion, which will set a record for longevity at the end of February (page 12).



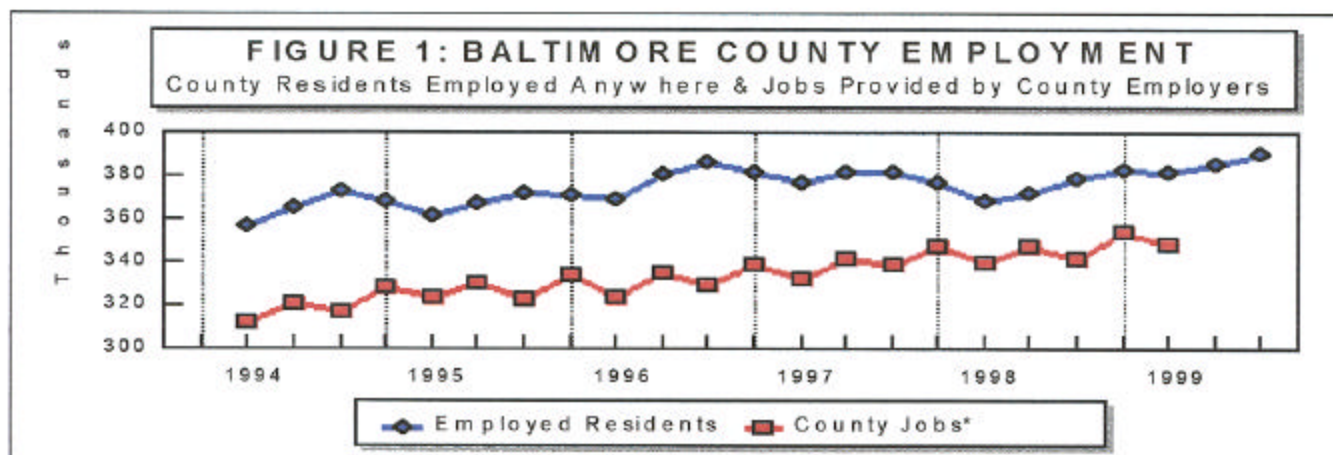
County Revenues through January total \$743.1 million, 4.7% ahead of last year. Revenues appear strong all around as **property tax** revenues are ahead of the FY 99 pace by 4.9%, **income tax** revenues are 4.1% ahead, and **all other** revenues are up by 4.5% (pages 14-15).

ECONOMIC INDICATORS

EMPLOYMENT



Figure 1 shows quarterly employment levels for both County residents and County employers -- the former measuring the number of County residents employed, while the latter measuring the number of jobs supplied by County employers. Year-over-year comparisons show a healthy County labor market. From 1998:Q4 to 1999:Q4, resident employment showed a 1.7% or 6,500 person gain. This compares with a nearly 5,500 person increase in resident employment a year earlier. County jobs over the 1998:Q1 to 1999:Q1 period rose by a solid 2.4% or 8,116 jobs (Figure 1).

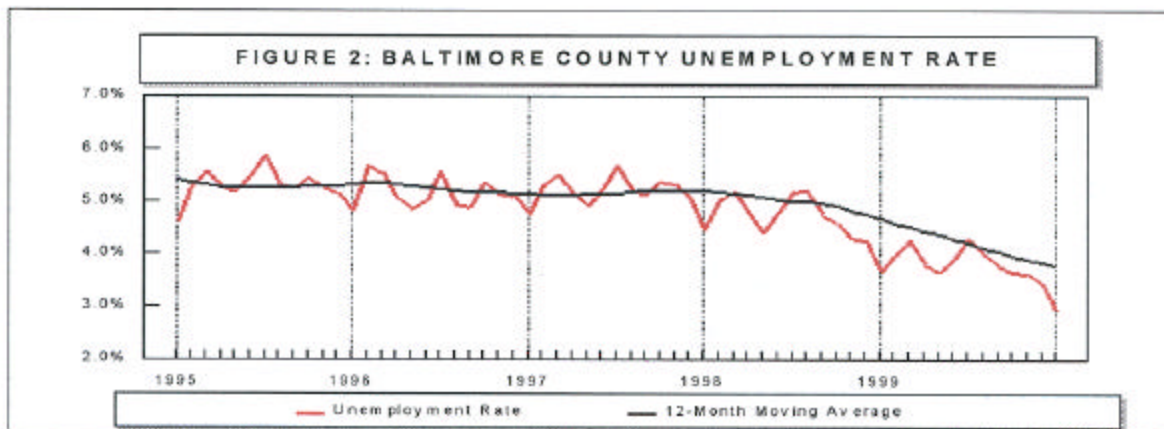


* County jobs data lags resident employment data by several quarters.

While the County employment picture is bright, it continues to somewhat lag State employment. From 1998:Q4 to 1999:Q4, State resident employment was up 1.9%, while over the 1998:Q1 to 1999:Q1 period, the number of jobs in Maryland increased by 2.6%.

The County's total resident employment during the fourth quarter of 1999 averaged 389,104 persons -- the highest fourth quarter reading on record (1999:Q3 had the highest resident employment reading on record). Reflecting strong employment growth, the number of **unemployed** County residents dropped by 2,878 persons, or by 17.6%, over the last year. Over the last two years, the number of unemployed County residents dropped by an impressive 6,324 persons or by 32%. In 1999:Q4, only 13,479 County residents -- out of a labor force of 402,583 -- remain unemployed. This number of unemployed is the lowest since 1989:Q4.

Baltimore County's total **unemployment rate** averaged 3.4% in 1999:Q4 – down from the 3.8% and 5.0% average in the fourth quarter of 1998 and 1997, respectively (Figure 2). The decline in the County's unemployment rate over the last two years reflects the addition of nearly 12,000 employed residents, while the labor force increased by nearly 5,700 persons. The steady declining County unemployment rate is the result of the recent U.S., Maryland and County economic performance. Economic growth in the U.S. has averaged 4.0% or more over the last three years, while, according to the Regional Economic Studies Institute (RESI), the State has recorded even stronger growth over the last several years.



Over the decade of the 1990's, the County's unemployment rate has generally been higher than the State's, but that gap has narrowed in recent years. In 1999:Q4, the State's unemployment rate averaged 3.1% compared to the County's 3.4% rate. In December, the State and County recorded unemployment rates of 2.8% and 2.9%, respectively, both down by over one half a percentage point from December a year ago. In contrast, the current January 2000 U.S. unemployment rate reached a 30-year low of 4.0%.

December 1999 unemployment rates varied considerably throughout Maryland. Of Maryland's 24 jurisdictions (including Baltimore City), unemployment rates varied from below 2% in Howard, Montgomery, Frederick and Charles Counties, to 13.5% in Worcester County. Baltimore City's unemployment rate went from being the highest at 7.0% in September to 5.6% in December. Baltimore County ranked 15th Statewide and for the Baltimore Metropolitan Area (BMA), the County's unemployment rate of 2.9% ranked second highest and only slightly below the BMA average of 3.1%, which is strongly influenced by Baltimore City. In fact, if the City's employment data were excluded, the December 1999 BMA unemployment rate would have been only 2.4%. Thus, while Baltimore County's economy and labor markets are performing well, they lag the regional performance, after excluding the City's data.

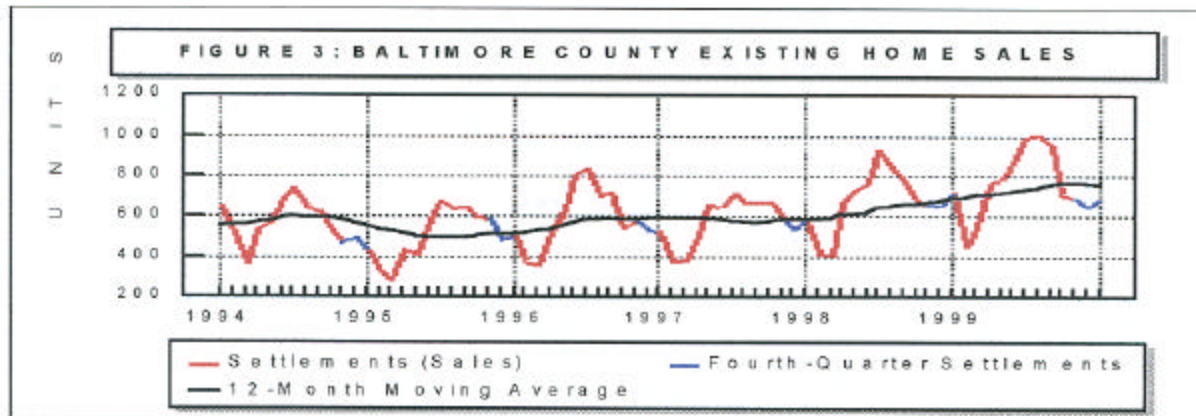
RESI's current projections for 2000 indicate that total employment will increase by 1.9% in the U.S. as a whole, and by 1.3% and 2.0% in Baltimore County and Maryland, respectively. While the employment projection for Baltimore County may seem modest, if it materializes, over 5,000 additional County residents will be employed. That may be a challenge given the small number of County residents unemployed and the slow growth in the County's labor force.

HOUSING



Existing-home sales data for Baltimore County over the 1994 to 1999 period are presented in Figure 3 below. Annual existing home sales in the County have generally been trending upward over the last eight years. Over the 1992-95 period, County home sales averaged around 6,550 units per year. In 1996-97, as the County's economy began to show new signs of life, and as mortgage rates slipped a bit, existing home sales averaged around 7,100 units per year. In

1998-99, County home sales accelerated as County employment grew and capital gains became a household word. Sales in 1998 totaled 8,291 units and in 1999 set a record at 9,137 units -- 40% above the 1992-95 average.



1999 County existing home sales exceeded the 1998 level for every month except December, when sales fell 4% year-to-year. Moreover, on a quarterly comparison, home sales in the fourth quarter of 1999 were around 1% below the 1998 period -- 2,039 units versus 2,055 units. This fourth quarter to fourth quarter slowing most likely reflects two factors -- first, rising mortgage rates with the 30-year conventional mortgage rate in 1999:Q4 averaging 7.8% -- one full percentage point ahead of the 1998:Q4 average of 6.8%; and, second, the inventory of available existing homes for sale in the County in 1999:Q4 was at the lowest level in the data series (1992:Q4) and 28% below the 1998:Q4 level. These two conditions are likely to persist and will be affecting future County existing home sales.

	Existing Home Sales		30-Yr Conventional Mortgage Rate	
	Annual	Fourth Quarter	Annual	Fourth Qtr. Avg.
1992	6,535	1,636	8.4%	8.2%
1993	6,632	1,905	7.3	7.1
1994	6,632	1,405	8.4	9.1
1995	6,185	1,581	8.0	7.4
1996	7,144	1,644	7.8	7.7
1997	7,040	1,709	7.6	7.2
1998	8,291	2,055	6.9	6.8
1999	9,137	2,039	7.4	7.8

Pending existing-home sales within the County is presented in Figure 4 below. On a fourth quarter 1998 to fourth quarter 1999 basis, pending home sales were down by nearly 5% — however, they still remain at historically high levels. The decline in pending sales probably reflects the recent increase in mortgage interest rates and the low inventory level of homes for sale. A small increase in mortgage rates will not have an immediate impact on home sales, but the 30-year conventional mortgage rate has been creeping up over the last 12 months, and over time rising mortgage rates dissuade marginal buyers. In 1998:Q4, the 30-year conventional mortgage rate averaged 6.8%; in 1999:Q1, 6.9%; in 1999:Q2, 7.2%; in 1999:Q3, 7.8%; and in 1999:Q4, 7.8%.

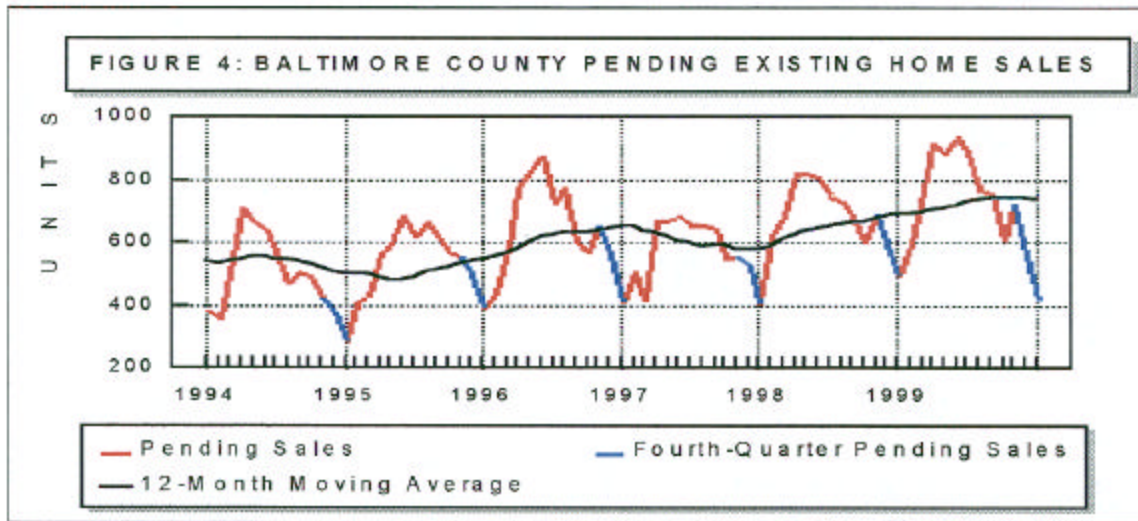
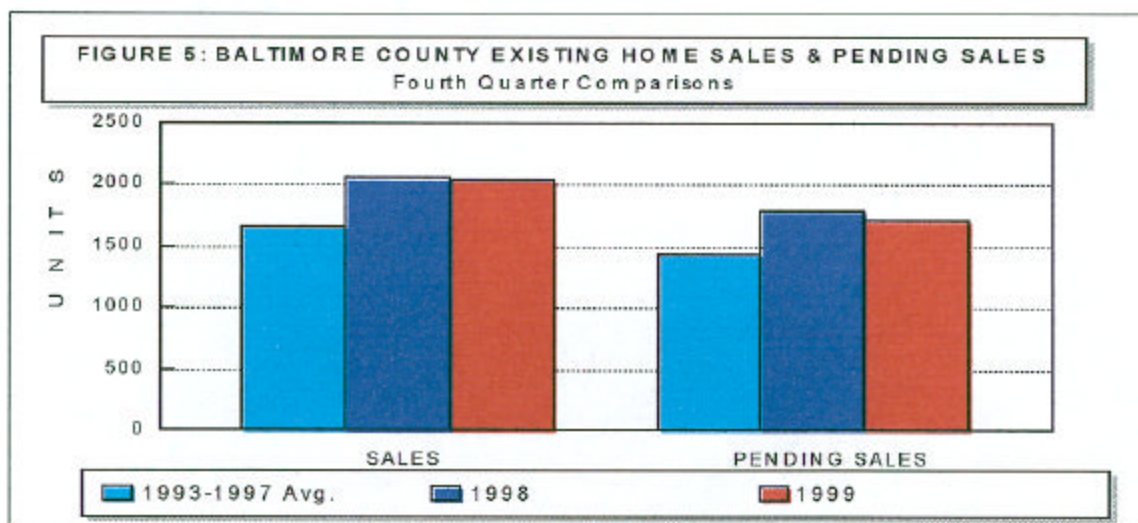
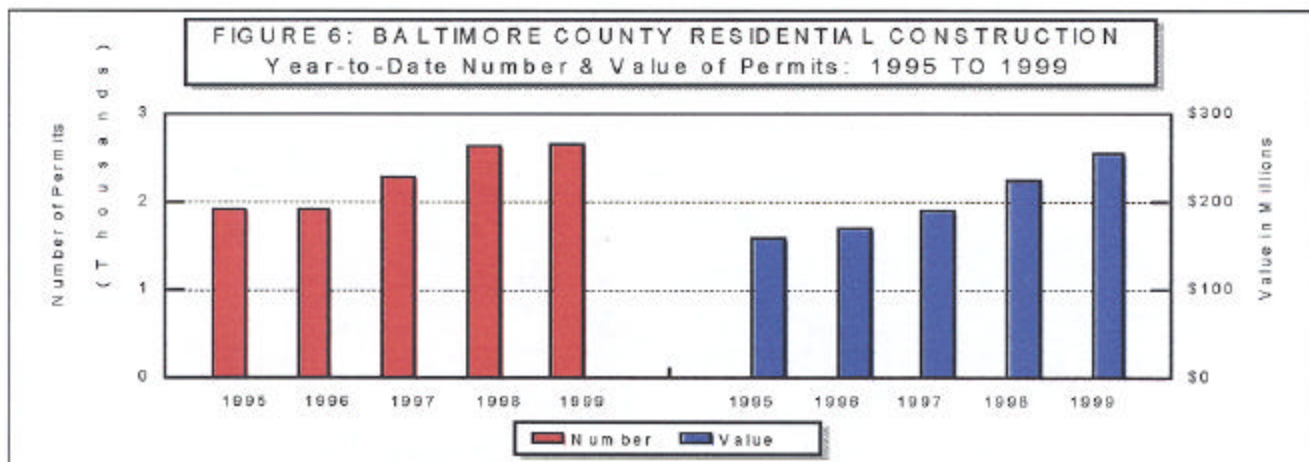


Figure 5 shows a longer term perspective of the **remarkable current strength of the Baltimore County residential housing market**. Despite the recent slowing in existing home sales and pending sales, the County's overall housing market is strong and will likely continue strong, albeit at a slightly lower level in 2000 versus 1999. 1999:Q4 existing home sales and pending sales are down 0.8% and 4.6% respectively from 1998:Q4. However, 1999:Q4 sales are still 23.7% ahead of the 1993-97 fourth quarter average, while County pending existing home sales are 18.8% above the 1993-97 fourth quarter average.



Baltimore County **residential building permit activity** continues at strong levels over the first nine months of 1999. Figure 6 shows the number and value of County residential building permits over the 1995 - 1999 period from January to September. The number and value of permits for the 1995-1997 period was relatively flat but in 1998, both the number and value of residential building permits rose sharply. Through the first three quarters of 1999 the **number** of residential building permits was flat -- up less than one percent with multi-family units down 4% and single family units up 3%. However, the **value** of County residential building permits rose over the January - September 1999 period by 13%. This is consistent with national trends that indicate larger single family homes with more amenities are being built.



New **non-residential building activity** (commercial and/or industrial, private and/or public) continues to be a plus for the County's economy, albeit at a lower level of activity in 1999 versus 1998 (Figure 7). Over the January to September 1999 period, the value of new non-residential construction was \$102.8 million, down 18% over the comparable 1998 period but up 11% over the same 1995-97 average period. New non-residential building activity is contingent on specific projects that can make this economic data set volatile. A few of the more significant August/September projects include: a new \$1,900,000 office building in Sparks; a \$3,000,000 Target in Cockeysville - Timonium; a \$2,500,000 2-story bank/office building in Cockeysville-Timonium; and a \$1,200,000 car dealership building in Perry Hall-White Marsh.

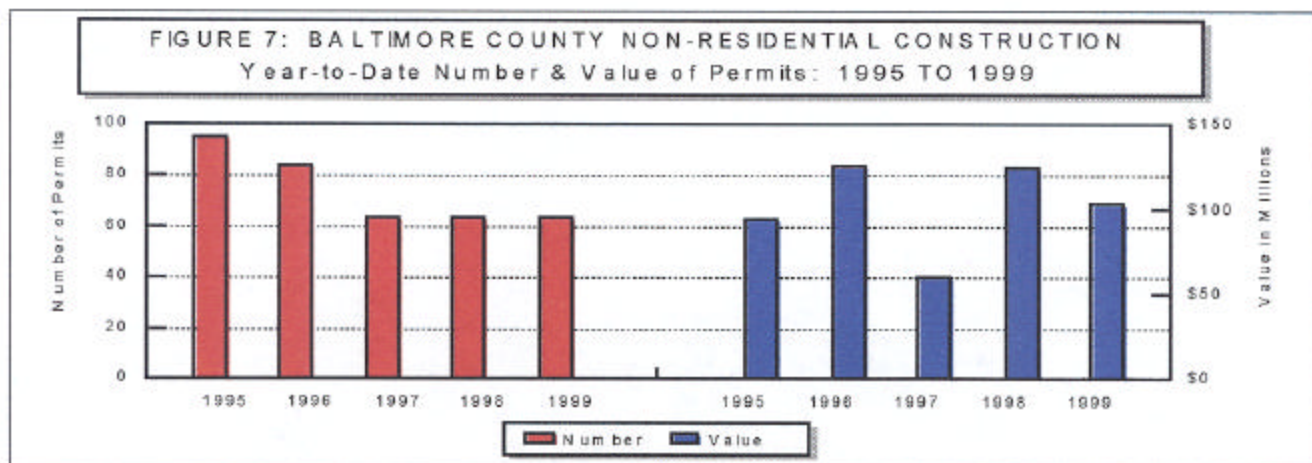
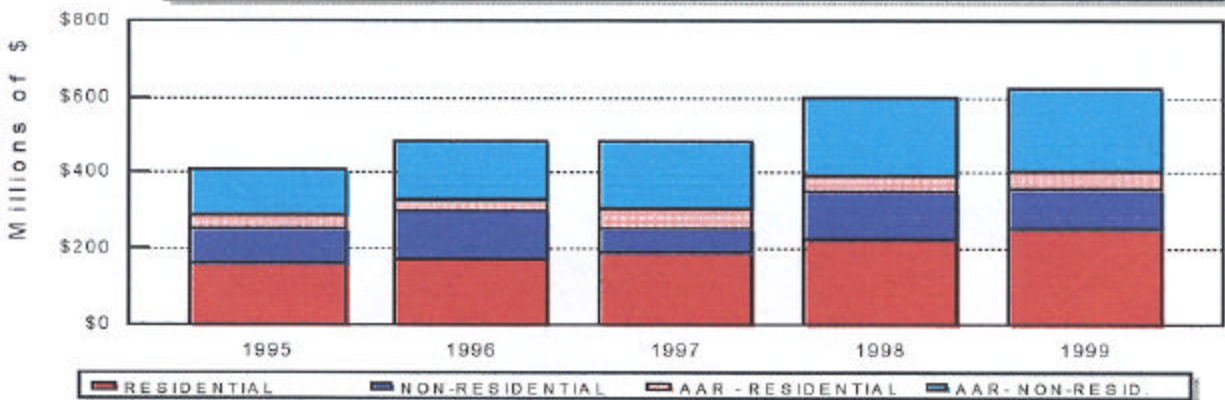


FIGURE 8: BALTIMORE COUNTY CONSTRUCTION
Year-to-Date Value of Permits by Type of Construction - 1995 to 1999



The **total** value of all construction permits issued in Baltimore County over the first nine months of 1999 was \$619.1 million – up 3% and 28%, respectively, over the comparable 1998 and 1997 periods. A key component in overall construction permit activity, **additions, alterations, and repairs (AAR)** accounted for about 42% of the total construction value over 1999's first nine months - the same level as the comparable period in 1998, but below the 49% ratio garnered in 1997. The lower percentage for AAR in 1999 and 1998, relative to 1997, does not necessarily reflect weakness in the AAR market. In fact, 1999 AAR construction values are up over the January - September 1998 and 1997 periods by 4% and 11%, respectively. Over the first three quarters of 1999, all County construction components, with the exception of new non-residential, are showing gains over the comparable 1998 period. A few of the major AAR projects approved in August and September included:

<u>Value</u>	<u>Facility</u>	<u>Area</u>
\$ 6.1 million	Retail Alterations/Addition	Lutherville
3.0 million	Office Alterations/USF&G	Pikesville
1.5 million	Additions, Johns Hopkins Bayview	Dundalk
1.0 million	Mall Alterations	Pikesville
1.0 million	Industrial Alterations	Middle River

MORTGAGE AND OTHER INTEREST RATES



The Federal Reserve's Federal Open Market Committee (FOMC) on February 2 made another preemptive strike against inflation by raising a key interest rate (federal funds rate) 25 basis points to 5.75%. (The federal funds rate is an inter-bank lending rate that the FOMC can control by injecting/removing liquidity in the banking system. The federal funds rate is a main variable that major financial institutions use in setting their prime business lending rate, consumer loan rates, and to a lesser extent, long-term mortgage lending rates. In fact, immediately after the FOMC announcement, major commercial banks raised their prime lending rate from 8.5% to 8.75%.) This is the fourth time that the FOMC increased short-term interest rates since June 30, 1999. Aside from the February 2 increase, the federal funds rate was raised on June 30, August 24, and November 16, 1999. In announcing the recent rate hike, the FOMC gave indications that the latest round of interest rate increases will not be the last. In a statement released with the announcement of a rate increase, the Central Bank said *"the Committee remains concerned that over time increases in demand will continue to exceed the growth in potential supply, even after taking account of the pronounced rise in productivity growth. Such trends could foster inflationary imbalances that would undermine the economy's record economic expansion."* Regardless of the latest interest rate increase, the federal funds rate is only about one quarter of a point (25 basis points) above where it was in the summer of 1998 when the FOMC started a series of three rapid-fire interest rate cuts due to the Russian and Asian economic crises. Thus, while interest rates might not be considered extraordinary "high", there is a clear bias towards rising rates to head-off inflation.

Interest Rates

	<u>90-Day Treasury Bills</u>	<u>10-Yr. Treasury Bonds</u>	<u>30-Yr. Conven. Mortgage</u>	<u>30-Yr. Mortgage less 10-Yr. T.B.</u>
1998: Q1	5.19%	5.59%	7.05%	1.46%
1998: Q2	5.11	5.60	7.09	1.49
1998: Q3	4.96	5.20	6.86	1.66
1998: Q4	4.37	4.67	6.77	2.10
1999: Q1	4.53	4.98	6.88	1.90
1999: Q2	4.59	5.54	7.21	1.67
1999: Q3	4.79	5.88	7.80	1.92
1999: Q4	5.20	6.14	7.83	1.69
Feb 7, 2000	5.72	6.64	8.25	1.61

Mortgage Rate as of February 4

Source: Federal Reserve Board

The interest rate table pin-points the magnitude of the recent interest rate increase. Short-term 90-Day Treasury Bills in the fourth quarter of 1999 averaged 5.20%, up 41 basis points from the third quarter, and 83 basis points above the fourth quarter of 1998. As of February 7, the benchmark 90-day Treasury Bill rate was 5.72% -- up more than one half of a percentage point from the 1999 fourth quarter average. Compared to the 90-day Treasury Bill, the rise in the 10-year Treasury Bond was quite a bit steeper over the last full year, but fairly comparable over the course of 2000.

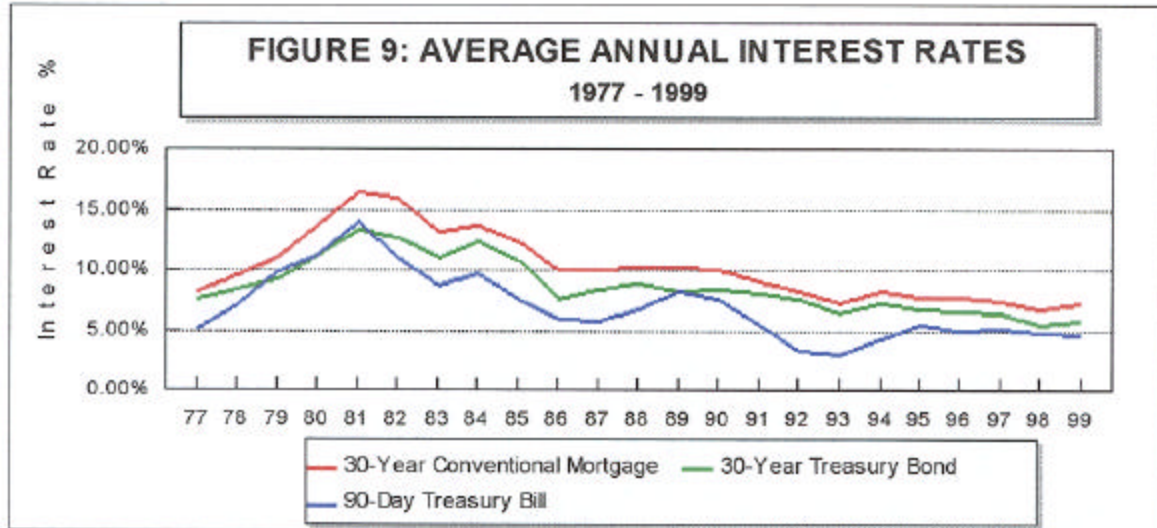
Long term interest rates have shown even stronger advances than short term rates. The 10-year Treasury Bond¹, after reaching a 30+ year low of 4.65% in December 1998, rose by 31 basis points in the first quarter of 1999, 56 basis points in the second quarter, 34 basis points in third quarter, and another 26 basis points in the fourth quarter. From 1999's fourth quarter average to February 7, 2000, the long-term Treasury Bond has risen an additional 50 basis points, or a full one half of a percentage point to 6.64%. Thus, while short-term rates continue to move up smartly, long term rates are seeing even more upward pressure. This pattern is a bit surprising given the benign inflation numbers, strong productivity growth and the wide historic spread between inflation and long term interest rates. Perhaps this suggests that the "markets", along with the Federal Reserve, do not perceive inflation to be dead, but merely resting. This is especially true given recent increases in oil prices, continued strong U.S. economic growth, and newly revived Asian economies.

Nationally, 30-year fixed-rate mortgages reached a three-decade low of 6.71% in October 1998 and, for the fourth quarter of 1998 and the first quarter of 1999, averaged below 7%, both nationally and in the Baltimore Metropolitan Area. However, during 1999 mortgage rates began to move-up and increased 11 basis points in the first quarter, 33 basis points in the second quarter, 59 basis points in the third quarter, and 3 basis points to 7.83% in the fourth quarter -- the highest quarterly rate since the rate stood at 7.92% in the second quarter of 1997. Since the fourth quarter average, 30-year conventional mortgage rates have moved up a strong 42 basis points and as of February 4, 2000 stood at 8.25%. The 30-year conventional mortgage has not averaged over 8% since the third quarter of 1996.

¹ Note: In prior *Economic Indicators and Revenue Report's* the interest rate table showed the 90-Day Treasury Bill, the 30-Year Treasury Bond and the 30-Year Conventional Mortgage Rate. Starting with this fourth quarter issue, the 10-Year Treasury Bond will replace the 30-year Treasury Bond in the Table as well as in the analysis. This change reflects the recent high volatility of the 30-Year Bond due to the shrinking supply as the government retires these securities with surplus funds.

It is interesting to note the spread between the 30-year fixed rate mortgage and the 10-year Treasury bond. In early 1998, the spread was a little less than 1.5 percentage points (147 basis points) and then moved up sharply during the late-1998/early-1999 period. This reflected the Russian and Asian currency crisis and hence, a flight to quality. Currently, the spread has receded to a more normal 161 basis points.

Higher mortgage rates, if they continue, will likely slow new construction and the residential resale market in the coming quarters. Current Baltimore County data still show a strong, but slowing, residential resale market and solid performance throughout various other local real estate markets. Nationally new home sales were up by 2% in 1999 and showed a strong December over December growth rate. For 1999, the local residential resale market continued to expand, but over the last four consecutive months, year-over-year sales have been slipping. Sales of existing residential housing units fell by over 10% from January 1999 to January 2000 in Baltimore County. However, this decline might be more weather and supply related versus a demand problem. Generally, there is a lag before higher mortgage rates significantly bite into the housing market. But a slower housing market is inevitable and it will have two significant impacts on the economy. First, a slower housing market means fewer sales and fewer households cashing out capital gains, and hence spending power that fuels the economy. According to Federal Reserve Chairman Alan Greenspan, the effect of rising house prices on consumer spending, the engine of U.S. economic growth, is bigger than that of rising stock prices. Second, fewer residential resales would cause County recordation and title transfer taxes to decline. However, a modest slowing in real estate related taxes are currently incorporated in the County's revenue estimates.



INFLATION



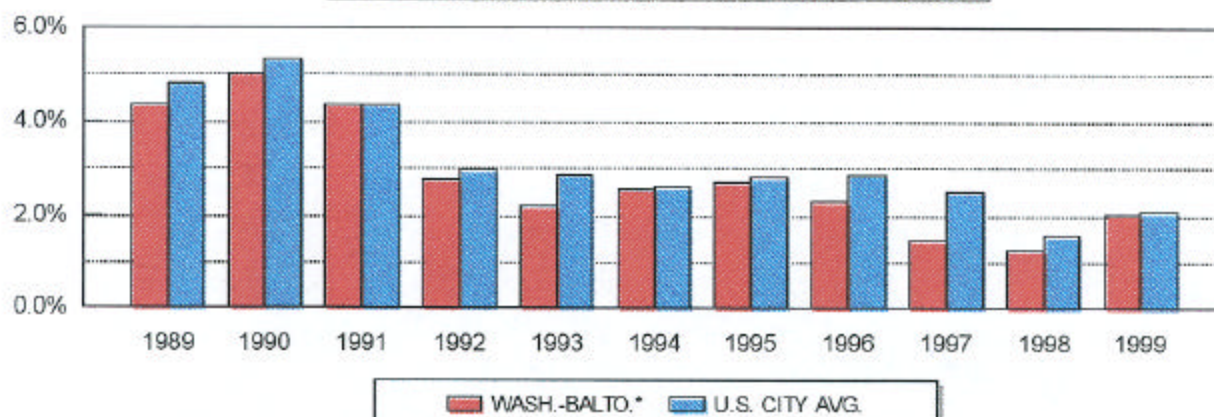
The Consumer Price Index (CPI) for the Washington-Baltimore Consolidated Metropolitan Statistical Area (CMSA) over the November 1998 to November 1999 period, increased by 2.5%, a little behind the U.S. inflation rate of 2.6% over the same period. While this rise in inflation can still be described as "modest", the November to November CPI increase at both the regional and national levels are well ahead of comparable year ago increases when inflation was running below 2%.

These higher inflation rates, while still lower than inflation rates over most of the 1990's (Table 13) and all of the decade of the 1980's, are beginning to get the attention of policy makers as previously discussed.

Financial markets respond quickly to inflationary trends. Over the last few years -- 1997, 1998 and 1999, the CPI increased by 2.3%, 1.6%, and 2.1%, respectively. Over that same period, the spread between the 30-year conventional mortgage rate and the inflation rate remained constant at 530 basis points (5.3 percentage points) each year. Increasing (decreasing) inflation puts upward (downward) pressure on interest rates, especially at the long end of the market as investors attempt to capture stable real returns. Thus, current FMOC actions to move short-term interest rates higher to contain inflation may have the effect of moving long-term rates lower and, in the longer term, keeping expansion alive.

Recent inflation forecasts suggest that inflation will increase at a somewhat faster pace in 2000 than what occurred in 1999. The Federal Reserve Bank of Philadelphia's *Survey of Professional Forecasters* (November 1999); the National Association for Business Economics' *Outlook*, November 1999; and the Regional Financial Associate, February 2000, are all forecasting the CPI to increase by 2.5% in 2000. Higher inflation forecasts reflect beliefs that most of the Asian economies, after faltering in the summer/fall of 1998, are rebounding and that Japan, after 6 years of no growth, has finally turned the corner. These factors, along with a turn around in commodity prices, especially oil where prices are at a nine-year high, and rising labor costs in the U.S., will contribute to rising inflation.

FIGURE 10: NATIONAL & REGIONAL INFLATION
Annual % Change in the Consumer Price Index



CONSUMER SPENDING



Real personal consumption expenditures, fueled by increasing employment, rising wages, relatively low inflation, and a continued high level of consumer confidence, rose at a 4.6% real annual rate in the final quarter of 1999 and by 5.2% for the year as a whole. The continued high level of confidence, coupled with a strong labor market characterized by solid employment growth and a low unemployment rate, should keep the economy moving forward. However, the pace of economic activity in 2000 is expected to slow from the rapid growth experienced over the last three years.

In January, the U.S. unemployment rate fell to 4.0%, the lowest level since January 1970, as nonfarm payroll grew by 316,000 jobs, the biggest rise in nonfarm payroll since the 400,000 increase in September 1997. With abundant jobs, a high level of stock valuations, and a January 1 that passed without major computer disruptions, the **Index of Consumer Confidence**^{**} set a record in January. Late last year consumer confidence was bouncing around without direction and in October slipped for four straight months reflecting, according to the Index's publisher, *The Conference Board*, falling stock prices in September and October. However, consumer confidence once again turned sharply positive in November, December and again in January as strong labor markets and income gains outweighed rising interest rates. In January, the Consumer Confidence Index stood at 144.7 (1985 = 100). The previous high for the index was in October 1968 near the conclusion of the longest U.S. economic expansion on record (February 1961 until December 1969). Interesting, if the U.S. economy makes it through this month (February 2000) without the start of a recession, the old 106 month record for a U.S. business cycle expansion will be eclipsed. The current U.S. economic expansion began in March 1991. Thus, times are good and the consumer is voicing a vote of confidence as the **present situation index** is in record territory and the **expectations** index, a gauge for business conditions six month hence, is at a sixteen-year high.

Most economic forecasters are calling for economic growth to continue, albeit at a pace slower than the last few years. For 1999, the U.S. economy, as measured by the Commerce Department's Real Gross Domestic Product (GDP), expanded at an annual rate of 4.3% in the first quarter, a 1.9% annual rate in the second quarter, 5.7% in the third quarter, and by a surprisingly strong 6.9% annual rate in the final quarter. Real GDP expanded by 4% or more over the last three years -- a remarkable achievement at this stage of the economic cycle. For 2000, a recent consensus forecast (February 2000) from the National Association for Business Economics projects that real GDP (economic output originating from within U.S. borders) will increase by 3.8%. Other recent private forecasts suggest similar growth for 2000.

^{**} This particular gauge is important in evaluating the economy's future since consumer spending accounts for about two-thirds of overall economic activity. The more confident the consumer, the more likely they will continue to spend and propel the economy forward.

A growth rate in real GDP of a nearly 4%, at this stage of the economic expansion, is extraordinary and represents a growth rate that will allow for new job creation to about equal the labor force expansion, thus keeping the unemployment rate at around current levels.

The economic expansion in Maryland and Baltimore County got underway later than the U.S. as a whole. But, at this stage of the expansion, there are more direct linkages between the County, State and national economy than what existed when the expansion began. Regardless, Maryland's Gross State Product (GSP) in 2000 is forecast by RESI to increase by 3.7%. GSP is the State's equivalent to the national GDP and measure economic output (production of all goods and services) produced with the resources within a State's boundaries. If the projected growth rate for Maryland in 2000 materializes, and the County's growth rate follows the State's pattern, County revenues should continue to grow at a solid pace.

FISCAL YEAR 2000 REVENUES



Total revenues: FY 2000 revenues totaled \$743.1 million through January, 4.7% ahead of last year's pace; this represents around two thirds of the expected FY 2000 revenues. Based on the economic indicators to date, our revised revenue estimate of \$1,130 million for FY 2000 appears reasonable.

Over the last few years, the economies of Maryland and the U.S. have been more in sync than compared to the early 1990's as has the economic activity between the County and the State, with the County growing at a slightly slower pace. Thus, with the U.S. economy continuing to display remarkable strength, expectation for the State and County's economy and revenue generation capabilities remain positive.

Property tax revenues: Property tax revenues through January totaled \$511.0 million -- 4.9% ahead of the same period last year. Property tax collections currently account for 69% of total revenues collected so far this fiscal year. Most property taxes are due in July while other taxes, especially income taxes that flow through the State, are recorded later in the fiscal year. In recent years the number of property owners shifting from an annual to semi-annual property tax payment schedule has increased sharply. However, this shift is not expected to affect property tax revenues as all of the revenues are booked as of July, although a part of actual revenues might not be received until January.

Baltimore County Revenues By Selected Categories (Millions of Dollars)

	<u>Through January</u>		<u>% Change</u>	<u>% of Total</u>	<u>Annual</u>
	<u>FY 1999</u>	<u>FY 2000</u>			<u>FY 2000</u>
Property Taxes	\$487.2	\$511.0	4.9%	68.8%	\$513.0
Income Taxes	123.8	128.8	4.1	17.3	412.0
All Other Revenues	<u>98.9</u>	<u>103.3</u>	<u>4.5</u>	<u>13.9</u>	<u>205.0</u>
Total Revenues	<u>\$709.9</u>	<u>\$743.1</u>	<u>4.7%</u>	<u>100.0%</u>	<u>\$1,130.0</u>

Given the recent strong level of new residential building permits and new non-residential construction activity, many new taxable properties will be coming on stream as FY 2000 progresses. Additionally, many properties will have increased future assessments because of the high level of additions, alterations, and repairs being made. These new/improved properties will add to the County's property tax revenue collections, thus the revised property tax revenue estimate of \$513 million appears likely to materialize.

Income tax revenues: Income tax revenues through January totaled \$128.8 million, up 4.1% over the same period last fiscal year, although only about 30% of fiscal year income taxes are collected through January. With the County's unemployment rate at the lowest levels in a decade and the number of employed County residents growing, income tax revenues are likely to reach the revised estimate of \$412 million in FY 2000.

There has been considerable discussion about the importance of capital gains to County and State income tax revenue collections. Currently, there is no evidence that revenues from capital gains will be slowing as the level of stock market trading and valuations remain high. Even if revenues from capital gains slow, overall income tax revenues are likely to continue to advance, reflecting the increased number of employed County residents as well as recent wage gains -- wages and salaries make up the bulk of personal income. In fact, personal income, which excludes capital gains, will likely advance by around 5% in FY 2000. This suggests that even if revenues from capital gains were to slow slightly, overall income tax revenues would still match or exceed current expectations for FY 2000.

Other revenues: At this time in the fiscal year, revenue comparisons on a year-over-year basis are difficult due to the timing and recording of various tax collection categories. However, through January, FY 2000 County revenues, other than property and income tax, are up 4.5% from the same period last year. This revenue collection rate is actually ahead of projections since "other revenues" in FY 2000 are projected to fall by about 3% from FY 1999.

RECENT LOCAL AND NATIONAL ECONOMIC DEVELOPMENTS

LOCAL

■ While Baltimore metropolitan home sales fell by nearly 6% in December from a year earlier, for 1999 as a whole, home sales were up nearly 10%. The average price a detached home in December 1999 was \$209,200, up 8.1% from a year earlier, while townhouses sold for an average of \$99,700, up 3.7%.

■ Bethlehem Steel plans to cut more than 500 nonunion jobs from its nationwide work force in 2000. About 100 of the 650 salaried engineers, foreman and supervisors will be cut from the Company's Sparrow's Point Division in the County.

■ Integrated Health Services Inc. filed for bankruptcy protection in early February. The health care concern runs more than 1,700 nursing homes and rehabilitation centers nationwide, but none are in Maryland. However, the company does employ 900 at its corporate headquarters in Sparks. According to the Company, no layoffs are expected but they are evaluating staffing levels.

■ It appears that the Hunt Valley Mall will be sold, receive a face lift, and change formats from a more traditional mall to a large store format.

NATIONAL

■ The U.S. economy added 387,000 new non-farm jobs in January, the biggest increase in over two years, while the unemployment rate fell to 4.0% -- a 30 year low. Part of the job surge reflected a strong increase in construction employment due to unseasonably warm weather in the survey period.

■ U.S. productivity (output per worker) rose sharply in 1999:Q4 and for the year as a whole. For all of 1999, productivity increased by 2.9%, up from 2.8% in 1998, while unit labor costs rose a modest 1.8%. Strong productivity growth helps keep inflation in check and interest rate at moderate levels.

■ On February 2 the Federal Reserve raised the federal funds rate target 25 basis points to 5.75% and indicated additional increases are likely. Despite the recent increase and three others over the second half of 1999, the federal funds rate is only slightly ahead of where it stood in the summer of 1998.

■ In 1999, personal income, which includes wages and salaries, interest, dividends and rents, and government transfer payments, increased 5.9%, the same rate of increase as in 1998.

■ Gross Domestic Product (GDP), a measurement of total economic output within U.S. borders, grew at an annual rate of 4.6% in 1999:Q4, and by 4.0% for 1999 as a whole. 1999 marked the third consecutive year where GDP grew by 4% or more.